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SUBJECT: OIL: DAR BLEND GETS SWEETER, MORE ABUNDANT WHILE NILE BLEND CONTINUES TO DECLINE

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B) KHARTOUM 231
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¶1. (SBU) Summary: GOS oil revenues for the month of April totalled $158.76 million, up from $157.26 million in March, according to figures released last week by the Ministry of Finance and National Economy. Though prices and production both rose in April, the resulting revenue increase was curbed by adjustments to the production split between the government and oil companies. The highly acidic (and steeply discounted) Dar Blend found in Blocks 3 and 7 drove production increases. But State Minister for Energy and Mining Angelina Teny told econoff on June 16 that newer fields in these blocks are producing alighter, less acidic crude, making Dar more attractive to refiners. She also outlined plans to reverse declining production of the superior Nile Blend from ageing fields in Blocks 1, 2 and 4, including new exploration, the commissioning of a technical study to enhance recovery. She also noted the need for outreach to state and local authorities aimed at reducing the number of work stoppages due to what she claimed was their interference in the oil sector. End Summary.

¶2. (SBU) GOS oil revenues for the month of April totaled $158.76 million, up from $157.26 million in March and $107.48 million in February, according to figures released last week by the Ministry of Finance and National Economy. Rising prices played their part, as the average export price per barrel in April for Nile and Dar blends was $40.74 and $37.09, respectively, up from $35.09 and $27.75 in March. Oil production increased as well, to 437,000 barrels per day (b/d), up from 410,000 b/d in March. The revenue increase was curbed, however, by changes in the production split between the government and oil companies, which is subject to periodic adjustments. The Government of South Sudan's (GOSS) share of April revenues was $51.596 million, down slightly from $54.504 million in March (Note: Under the Comprehensive Peace Agreement, the GOSS receives one half of revenues from oil produced in the south, minus various deductions. End Note.)

BLOCKS 3 AND 7: DAR GETS SWEETER

¶3. (SBU) Increased production was once again driven by a boost in production in Blocks 3 and 7 operated by Petrodar, a consortium led by China's CNPC and Malaysia's Petronas. (Note: Blocks 3 and 7 produce the Dar Blend, which is heavily discounted due to its acidity. When oil prices fell dramatically in the latter half of 2008, the price of Dar fell below $10 a barrel, threatening its economic viability. It has since rebounded. End Note). Production of Dar in Blocks 3 and 7 was 238,000 b/d in April, up from 208,000 b/d in March.

¶4. (SBU) During a June 16 meeting, State Minister for Energy and Mining Angelina Teny told econoff that the newer fields in Blocks 3

and 7 were producing a lighter, less acidic crude which has reduced Dar's overall discount to Brent Blend; the average export price for Dar in April was $37.09, compared to $50.18 for International Brent. (Note: though still discounted by over 25 percent to Brent, the gap has narrowed substantially since December, when Dar was discounted by over 50 percent. End Note.) The emergence of the lighter crude prompted the Ministry to consider selling two varieties of Dar, according to Teny, but this would require new infrastructure. "It would be a costly, long-term project," she said.

BLOCKS 1, 2 AND 4: STRUGGLING TO STEM THE DECLINE
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¶5. (SBU) Production of the preferred Nile blend, meanwhile, continues to decline in Blocks 1, 2 and 4 operated by the Greater Nile Petroleum Operating Company (GNPOC), a consortium led by China's CNPC, Malaysia's Petronas and India's ONGC. From a one-time peak of 325,000 b/d, these blocks produced only 179,000 b/d in April, down from 181,000 b/d in March. Teny told econoff that several steps are being taken to reverse the steady decline, including ongoing seismic exploration in previously untouched areas of the blocks. The results to date have been very promising, she said, but she cautioned that production was two to four years away. The Ministry has also commissioned a technical study by Norway to enhance recovery in the blocks' ageing fields, she said. "We're hoping to bring production back above 200,000 b/d eventually," she observed, adding that she hoped increases would be evident by the end of 2009.

¶6. (SBU) In addition to new exploration and recovery efforts, the Ministry is hoping to boost oil output in Blocks 1,2 and 4 by reducing the number of work stoppages due to what Teny said was

state and local interference, especially in Unity State and Southern Kordofan. Teny noted that local officials there routinely put up bureaucratic and physical barriers (e.g. road closures) in disputes with oil companies over compensation, resulting in production stoppages. They are also hindering new exploration by demanding outrageous compensation fees for land, she said. Teny herself has traveled to both states to meet with local authorities. She reported that she had urging the latter to act responsibly and use dispute resolution mechanisms in the CPA rather than taking actions that halt production. She emphasized to authorities that such stoppages necessitate GOS payment of standby fees to oil companies for their idle rigs. "Ultimately, it's the [GOS and state governments] who lose out," she said.

BLOCKS 5A AND 5B: NO GOOD NEWS

¶7. (SBU) Production in Block 5A, operated by White Nile Petroleum Operating Co. (WNPOC), remains steady at a meager 20,000 b/d. WNPOC, a consortium led by Petronas and ONGC, is prevented from producing more oil due to pipeline constraints. Although a pipeline connects its Thar Jath and Mala fields to the GNPOC pipeline destined for Port Sudan, WNPOC can make only limited useage of this pipeline due to the inferior quality of WNPOC
S crude. Teny told econoff that the Ministry has commissioned a study on alternative means of transporting crude out of Block 5A. One option currently being examined is connecting to the GNPOC pipeline further North at Fula, where it has greater capacity.

¶8. (SBU) Teny expressed disappointment in ONGC of India's recent decision to relinquish its interest in Block 5B, where it held a 23.5 percent stake in the WNPOC Consortium operating the block. ONGC is the second company to exit the block after Sweden's Lundin, the last remaining Western oil company in Sudan, pulled out of 5B earlier this year following three unsuccessful drilling attempts. These come in addition to three dry wells drilled by Ascom, the Moldovan operator engaged in a long-running dispute with WNPOC over rights to the Block. Despite these setbacks, Teny is optimistic about 5B's prospects. "I'm convinced someone will make a fortune there," she said.

SUDAN'S STATE OIL COMPANIES FLOUNDERING

¶9. (SBU) Teny also expressed disappointment that after nearly 12

years in existence, the State-owned oilfirm Sudapet is still overly-reliant on foreign firms in the various consortia where it holds minority stakes. "Sudapet should be engaged in its own operations by now," she said. Instead, the company suffers from poor management and is extremely opaque. "You cannot tell where its revenues go," she said, though she speculated they were directed towards the state security apparatus. Despite its failures, Sudapet is still light years ahead of Nilepet, the fledgling Southern Sudanese state oil company. "Nilepet exists only as a management team and a board. It has zero technical capacity," she said. She lamented that the GOSS has apparently chosen to emulate Sudapet by appointing the GOSS Minister of Energy and Mining to chair Nilepet's board. "Sudapet is a poor model to imitate because it doesn't work," she said.

COMMENT

¶10. (SBU) The discovery of lighter, less acidic Dar is a stroke of good fortune for the GOS, but it continues to be overshadowed by decreasing production of the higher-priced Nile Blend. If new production in Blocks 1, 2 and 4 comes online in the next few years, it could help offset the decline of ageing fields, which may be irreparably damaged. Local authorities' interference in southern Sudan's oil sector, meanwhile, bodes ill for the South's ability to attract future investment post-2011, as does its pitiful infrastructure and increasingly bloody tribal clashes. It is no surprise therefore that Block B, the largest in the South, remains unexplored. Given the outbreaks of violence in Jonglei and Lakes States where B Block is located, it seems unlikely that the concession holder, France's Total, will begin exploration anytime soon.

ASQUINO